

On the

HORIZON

By J.K. Radomski

Globalization isn't just boosting international trade, but contributing to what may be the biggest change in accounting this generation has ever seen.

International Financial Reporting Standards (IFRS) are the norm for public companies in over 100 countries. Starting January 1st, 2011, some 4,500 Canadian public companies will start reporting their financial statements using these standards, and have to call on accountants to recalculate just about every other line.

Until recently, U.S. Generally Accepted Accounting Principles (GAAP) was perhaps the most widely recognized accounting basis around the world, given the interest of many companies to be listed on American stock exchanges like the NYSE and NASDAQ in order to grow their businesses.

But with the emergence of the European Union as a solid, single trading entity that could compete with the U.S., and spurred interest in Asian stock markets like the Hang Seng and Nikkei, many companies now prefer to raise funds in global capital markets to help them prosper. As such, the International Accounting Standards Committee developed IFRS to improve and standardize accounting practices worldwide.

Proponents say using one set of accounting standards not only facilitates international transactions and commerce, but assures anyone using an IFRS financial report prepared anywhere in the world that they are comparable because common accounting standards have been followed.

But making the transition is not expected to be easy.

The European Union and Australia were the first to switch over to IFRS in 2005. Many of the companies in these regions discovered that they had at first underestimated the scope of the conversion process.

"Implementing IFRS in Canada can be quite an extensive process, depending on the nature of the company and its industry," says Karine Benzacar, a CMA, and president of Knowledge Plus Corporation, a company specializing in consulting and corporate training. "IFRS implementations are also a great opportunity for accountants to use the skills they have learned as they will likely touch many functional areas of a business. For example, IFRS starts with accounting but if the change in accounting standards modifies a company's net income, it can affect performance bonuses and therefore revisions must also be made to compensation schemes."

While IFRS shares some similarity to Canadian GAAP, its adoption will require certain industries — such as mining and other natural resource companies — to face a potentially long and complex conversion process, as significant accounting changes are needed to fully comply with it.

IFRS will require mining companies to rethink how they report their up-front investments and deal with the costs that come when mines are closed or decommissioned. Meanwhile, the oil and gas industry must deal with how reserves and resources

are recognized in their financial statements, and whether or not some of their initial costs will be expensed or capitalized.

"IFRS is judgment based, not rules based, so accounting professionals will have to determine how its principles apply in different circumstances, such as companies in these sectors," says Karen Higgins, national director of accounting services for Deloitte. "Everyone who knows Canadian GAAP, who's worked or works for a public company, will need to retool themselves as accounting in Canada will become quite complicated for a short time because people will be juggling old and new standards, and moving towards a new set of international accounting standards that will be constantly evolving."

Some of the biggest differences between IFRS and Canadian GAAP relate to how impairment charges (writing off worthless goodwill), securitization (the repackaging of financial assets into securities that are then sold off to investors), and revaluations are recognized. IFRS uses different models to calculate these items.

These new international accounting standards also change the way a company's assets and liabilities are considered when a merger or acquisition occurs, and uses different accounting methods to record the assets, liabilities and income of joint ventures. IFRS will also make companies provide new disclosures relating to financial risk management, set new standards on intangible assets, and revise existing

standards used to calculate earnings per share.

While other differences are more subtle, and understanding all the effects IFRS will have on the profession require in-depth study, one thing is clear: publically accountable enterprises will have to comply with these new standards come 2011, or else face the possibility they might be delisted from Canadian stock exchanges.

“Companies should be thinking about preparing their 2010 financials to both current standards and IFRS. This will allow shareholders to adjust their expectations before 2011 so there is a better understanding of their performance once all the components are considered,” says Doug Cameron, director of professional practice at Ernst & Young. “This change will also create some wonderful opportunities for companies to improve their businesses and strategies while trying to understand what this conversion means to them. As these kinds of things tend to evolve in accounting, I think this will also create an increased demand for qualified accountants.”

As such, accounting firms have been preparing themselves over the last few years to help guide their clients through these changes.

Aside from creating IFRS groups to study these new accounting standards and their effect on the work they do, they have also provided their staff with training (through classroom and web-based courses) that outlines the key differences between Canadian GAAP and IFRS.

Universities are also preparing for the change as many are developing IFRS-based accounting courses, or have already started discussing these international standards as part of their core training. Last December, the University of Toronto’s MMPA program joined with Deloitte and the Canadian Institute of Chartered Accountants (CICA) and held a two-

day session for educators to talk about IFRS’s effect on their curriculum.

“The main concerns were getting up to speed with respect to the IFRS body of knowledge, and how to integrate this new knowledge into the curriculum. All agreed that the need to start incorporating the material was imminent,” says Irene Wiecek, senior lecturer and associate director of the University of Toronto’s Master of Management and Professional Accounting (MMPA) program. “Many of our students will be practicing accounting using IFRS when

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they graduate, and professional accounting exams are already requiring a certain level of knowledge in this area. We want to make sure that our students are well equipped when they graduate.”

The CGA and CMA designations are also keeping up-to-date with this change, and are offering their members the necessary resources (such as continuing professional development and conferences) to understand IFRS and its impact on the profession.

“CGA Canada is updating its members through a number of presentations and live webcasts. There are also a number of CGAs like myself who

are conducting IFRS seminars and orientation sessions,” says Glen Schmidt, president of GTS Seminars, a company that offers professional development seminars, primarily in the fields of taxation, and accounting and auditing standards. “The move to IFRS will affect every professional accountant in Canada, regardless of designation. It’s not just a technical exercise. I expect it to be pervasive to the point where we will have to rethink many of our concepts in other areas. In my work with the International Monetary Fund, I have seen the use of IFRS in many countries to date. Some of them continue to find its implementation very challenging.”

In some cases, accounting students who are currently starting school may eventually find themselves on equal footing with colleagues who are just starting out in the workplace, as they will both have had about the same amount of exposure to IFRS.

Meanwhile, students who are nearing graduation and want to not only impress recruiters, but get an edge on the other students vying for their dream job, should take some time to familiarize themselves with IFRS. While students at this stage will definitely get some concrete training when they start their careers, and may want to ensure their look at IFRS doesn’t cut into the time they should be preparing for their finals or their professional exams, they should at least keep it in their periphery.

They can review the IFRS-related materials published by CICA, or keep abreast of the newsletters, documents and articles produced by this country’s biggest accounting firms. They can also seek out materials that explore the experiences of European companies during their conversion to these international standards, and those that compare Canadian GAAP to IFRS.

“If I was interviewing someone and they mentioned they had begun to look into the principles that form the

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basis of IFRS, I would be quite impressed. It would show me that they're thinking ahead and have some intellectual curiosity," says Diane Kazarian, an IFRS leader at PricewaterhouseCoopers. "I don't expect anyone to read everything about IFRS, but being able to ask good questions about what its impact is in Canada, and showing interest by asking how it started, would be a positive."

IFRS is destined to affect the profession well past 2011.

As of this time, the U.S. has yet to decide when it will adopt IFRS — some expect it will take about five years — so accountants south of the border will most likely turn to their Canadian colleagues for transitional help. Last year, the U.S. Securities and Exchange Commission hinted that a stateside move toward IFRS was possible when it dropped its requirement that foreign companies who now use IFRS must report their financials using U.S. GAAP.

Meanwhile, CICA may also rule later this year that private companies that are currently exempt from IFRS will have to adopt some form of it. Those who champion this idea say using one set of accounting standards would simplify things.

"Private companies are anxiously waiting to see what CICA is considering. The solution currently being envisaged is a 'made in Canada' model where the basis would be the current Canadian GAAP as we know it, but with reconsideration of areas that give private companies concerns based on a costs/benefits considerations," says Paule Bouchard, a partner in the professional standards department at RSM Richter's assurance group. "But some private companies will start using IFRS because they may be thinking about going public, or an owner may want to sell their company to a public entity."

IFRS is also creating a number of career opportunities for young accountants who like to travel. As Canadian companies adopt these international standards and use their implementation as a reason to go global, the number of international assignments is also on the rise. Canadian accountants are also working in firms overseas where IFRS has already been adopted, so they can come back to Canada with some practical knowledge about the conversion process.

"Students who get an offer to join a big firm in 2009 will be readily exposed to IFRS. We already have a large number of active IFRS conversion advisory engagements underway at the moment," says Marilyn Stitt, a partner and national leader of IFRS initiatives at KPMG. "Adoption of IFRS in Canada is great news for students. By being able to speak the global accounting language, there will be a greater opportunity for an international secondment (a temporary transfer to another office) at all stages of their career. Aside from working in Australia, which uses IFRS for both public and private companies, there are also opportunities in the Caribbean, Europe, and South Africa." **CIA**